Annual Report 1969

Bralorne Oil & Gas Limited

The Years Highlights

	1969	1968
NET PRODUCTION		
Oil production, barrels	203,996	173,328
Daily average, barrels	559	475
Gas production, MCF	849,000	707,000
Daily average, MCF	2,300	1,900
SALES & EARNINGS		
Crude oil and natural gas sales	$ 617,795	$ 540,990
Management fees earned	33,928	200
Net income before provisions	194,516	212,152
Per share	.07	.08
Net loss	57,041	45,403
Per share	(.02)	(.02)
LAND HOLDINGS		
Gross acres	11,384,477	10,399,107
Net acres	1,588,602	1,097,135
Royalty acres	15,159	—
NET RESERVES		
Oil and Condensate, barrels		
Proven	3,593,000	1,159,000
Probable	544,000	—
Total	4,137,000	1,159,000
Natural gas, MCF — proven	26,871,000	20,000,000

Bralorne Oil & Gas Limited

Incorporated under the laws of the Province of Alberta
Capital: 5,000,000 Shares without Nominal or Par Value

Directors

Douglas A. Berlis, Q.C., Toronto, Ontario
Partner, Edison, Aird & Berlis

C. A. Burns, Toronto, Ontario
Executive Vice-President, Bralorne Can-Fer Resources Limited
President, C. A. Burns Consulting Limited

*George H. Davenport, Vancouver, British Columbia
President, Bralorne Can-Fer Resources Limited

*Harry Dernick, Calgary, Alberta
President and Chief Executive Officer, Bralorne Oil & Gas Limited

*C. Geoffrey Edge, Montreal, Quebec
Vice-President, Corporate Development, Chemcell Limited

Robert C. Heim, New York, New York
Vice-Chairman, Schroder Rockefeller & Co. Incorporated

John L. Kemmerer, Jr., New York, New York
President, Whitney & Kemmerer, Inc.

Clifford S. Malone, Montreal, Quebec
Chairman and President, Chemcell Limited

**Paul Porzelt, New York, New York
Chairman of the Board, Bralorne Can-Fer Resources Limited

**Chairman, Executive Committee   *Member, Executive Committee

Officers

George H. Davenport, *Chairman of the Board*
Harry Dernick, *President and Chief Executive Officer*
Thomas F. Griffin, C.A., *Treasurer*
Peter G. Wiseman, *Secretary*
Edward L. Richardson, *Assistant Secretary*

Auditors

Price Waterhouse & Co.
Calgary, Alberta

Transfer Agent & Registrar

The Royal Trust Company
Calgary, Toronto and Vancouver

Registered Office

736 - 8th Avenue, S.W.
Calgary 2, Alberta

Wholly-Owned Subsidiary Companies

Bralorne Petroleums Ltd.
Carleton Oil & Gas Development Co. Ltd.
Junior Oils Ltd.

Bralorne Oil & Gas Limited

Report to the Shareholders:

During 1969 your Board of Directors took certain steps which have transformed Bralorne Oil & Gas Limited from a small, scarcely-known unit to an aggressive and well-financed Company in the Canadian petroleum industry.

The first of these steps was the election, in March 1969, of Mr. Harry Dernick to the presidency of the Company. Mr. Dernick has been active in the oil and gas industry in Canada and the United States since 1947 and has a successful record of acquiring and developing oil and gas production.

During the fourth quarter of 1969 an agreement was entered into with Chemcell Resources Limited, a subsidiary of Chemcell Limited, a major manufacturer of chemicals, synthetic fibres, fabrics and carpets. Chemcell Limited, having decided to move into the oil and gas business, investigated a large number of companies before selecting Bralorne Oil & Gas Limited to manage its investments in this field.

Under the agreement, Chemcell expects to invest up to $10,400,000 within the next five years in the exploration for and acquisition of oil and gas properties, with Bralorne acting as manager. As a result Bralorne will earn fees and working interests and will participate in the program on its own behalf. Chemcell has the option, during the five-year period, of progressively acquiring Bralorne treasury shares at $2 per share until it has a controlling interest at a total cost of between $5 and $6 million. Chemcell has purchased 250,000 shares to date.

Pursuant to the agreement, Mr. Clifford S. Malone, Chairman and President, and Mr. C. Geoffrey Edge, Vice-President, Corporate Development, of Chemcell Limited were appointed to the Board of Directors of Bralorne Oil & Gas.

The demand for oil and gas in Canada and the United States continues to increase. As a result, production in the last quarter surpassed all previous records in the history of western Canada. We believe that the industry, through research and use of new techniques, is capable of developing new oil and gas discoveries to supply the ever-increasing demand.

For the year 1970, the Company has planned for the most extensive exploration program in its history and will manage and participate in exploration ventures which will involve major reserve attempts as well as low risk wildcats. The Company is in a position to intensify its exploration program in every area of Canada and anticipates that it will participate in a minimum of 50 exploratory ventures.

A complete review of operations by Mr. Harry Dernick, President, is included in this report.

The Directors wish to express their appreciation to the employees for their contributions to the Company's growth, and to all shareholders for their continuing support.

On behalf of the Board,

G H Davenport

George H. Davenport,
Chairman

April 3, 1970

Bralorne Oil & Gas Limited
President's Report to the Shareholders:

I take pleasure in reviewing the activities and progress of your Company for the year ended December 31, 1969.

Revenue from oil and gas sales increased to \$617,795 from \$540,990 in 1968. Net income before provisions for depreciation, depletion and mining exploration costs decreased from \$212,152 in 1968 to \$194,516. The decrease was due primarily to additional administrative and legal costs during the period of re-organization. As these costs are non-recurring, and the Company will earn increased management fees under the agreement with Chemcell Limited, net income should increase in 1970.

After provisions for depreciation and depletion totalling \$226,318, and the write-off of mining exploration costs of \$25,239, the net loss for the year was \$57,041 compared to \$45,403 in 1968.

ACQUISITIONS

Pursuing a policy to increase its oil and gas reserves, the Company acquired in June, 1969, all the outstanding shares of Carleton Oil & Gas Development Co. Ltd. This new subsidiary owns interests in producing properties located in the Yoyo Gas field in British Columbia, Nipisi Gilwood Provo-Viking and the Rainbow Keg River "B" Oil Units in Alberta, and in Dodsland field in Saskatchewan. The acquisition added 1,361,000 barrels of oil and 14 billion cubic feet of gas to the reserves.

In January, 1970, all outstanding shares of Junior Oils Ltd. were acquired. Junior also owns interests in the Yoyo Gas field and Rainbow Keg River "B" Oil Unit which complement those held by Carleton. This acquisition will add approximately 700,000 barrels of oil and 13 billion cubic feet of gas to the reserves.

Bralorne Oil & Gas is also endeavouring to acquire additional interests in units in which it is presently participating. In line with this policy, the interest in the Coutts Moulton "A" Unit in southern Alberta has been increased from 10% to 27½%.

PRODUCTION

Gross production reached new highs in 1969. Production of crude oil averaged 559 barrels a day, an increase of 84 barrels a day or 18% over the 1968 rate. Natural gas production averaged 2.3 million cubic feet per day, an increase of 0.4 million cubic feet a day or 21% over the 1968 rate.

The increases were due to acquisitions and to higher allowables. As the exploration program matures, further significant increases can be expected from new production.

Operating costs were significantly reduced due to increased participations in operating units and to pooling of production facilities.

RESERVES

Based on a study by an independent consultant, the net proven and probable reserves at year-end amounted to 4,137,000 barrels of oil and 27 billion cubic feet of gas, compared to 1,159,000 barrels and 20 billion cubic feet respectively at December 31, 1968. The increase is attributable to unitization of properties, acquisitions and to a considerable re-evaluation adjustment arising from better than anticipated performance of the Manitoba properties.

The reserves of Junior Oils Ltd., acquired in January 1970, are not included in the above figures.

EXPLORATION

ALBERTA

Milk River: The Coutts Moulton "A" Unit was formed effective December 1, 1969. Water injection will commence in 1970 and an increase in the allowable is anticipated as soon as re-pressuring is effective.

Rainbow-Virgo: The Company is participating in a four-well exploratory program in the Rainbow-Virgo area. The first well encountered 248 feet of oil bearing reef; another was completed with 80 feet of oil bearing reef; one was dry and the last is an indicated producer.

Countess: A discovery was made in the Countess area in the Glauconitic sand in which the Company has a 25% interest until payout and a 12½% interest thereafter. An interest is also held in the offsetting lands. Additional drilling is anticipated in 1970.

Winnifred: The Company drilled five wells and completed three as gas wells. A 25% interest was earned in the spacing units and a 5% interest in 30,000 acres of proven and wildcat acreage.

Other Prospects: Bralorne Oil & Gas has participated in several seismic surveys and exploration wells throughout Alberta. Every effort will be made to obtain a favourable acreage position in the Alberta Foothills in the next year.

SASKATCHEWAN AND NORTHWEST TERRITORIES

A discovery was made in the Mississippian zone, South Parkman field, Saskatchewan. Three producing wells were completed in which the Company owns a 10% interest.

In the Northwest Territories the Company is participating in a seismic program north of Great Slave Lake in the Fort Simpson Basin. For conducting the survey in partnership with other companies, a 6.2% interest will be earned in 184,000 acres. There is a potential for reef anomalies comparable to the Rainbow-Virgo-Zama areas. This is one of the most active sectors in western Canada.

HUDSON BAY AND ARCTIC ISLANDS

The Company is maintaining a 10% interest in 10,253,961 acres in the Hudson Bay – James Bay area. One of two planned stratigraphic test wells was drilled in 1969 and the second, Pen No. 2, will be drilled in 1970. The wells will provide a correlation base for the seismic survey that has been conducted over the permits.

In the Arctic Islands, Bralorne, in partnership with another company, acquired by filing approximately 1,000,000 acres of offshore permits located in Lancaster Sound. The tanker "Manhattan" tested the route on its historic voyage to the Alaskan North Slope. It is one of the few areas readily accessible by tankers.

The Company participated in a reconnaissance aeromagnetic survey conducted by Polarquest. Sediments from 5 to 20 thousand feet thick are indicated.

MINERAL EXPLORATION

Bralorne Oil & Gas participates in mineral exploration through its 12½% interest in the Can-Fer Exploration Syndicate.

The Syndicate is exploring uranium prospects in the Wollaston Lake region of northern Saskatchewan and in north-western Ontario. It is also carrying out programs covering base metals prospects in British Columbia and Ontario. In Alberta extensive testing is in progress on coking coal deposits in the Savanna Creek area. Work thus far on 5 of 35 sections held has provided a preliminary estimate of 6 million tons of strippable coking coal and 56 million tons of underground coking coal above natural drainage level. There are additional reserves below this level.

STAFF

The Company has strengthened its exploration staff with the addition of an exploration manager and a senior exploration geologist. Mr. Ronald A. Howard, a graduate geologist from the University of Alberta with 16 years' experience in western Canada and foreign exploration, took over the duties of exploration manager effective June 1, 1969. Mr. Norman Paarup, a graduate geologist from Colorado College with 10 years of exploration experience in western Canada, was appointed senior exploration geologist in November, 1969. The depth of experience of the geological staff will be a valuable key to the future success of the Company.

Harry Dernick,
President

April 3, 1970.

Bralorne Oil & Gas Limited and subsidiary companies

Consolidated Balance Sheet — December 31, 1969

Assets

	1969	1968
CURRENT ASSETS:		
Cash	$ 315,251	$ 411,916
Short term investments, at cost	—	15,121
Accounts receivable	106,626	80,314
Inventories of stores and supplies, at the lower of cost or estimated realizable value	21,674	25,091
Refundable deposits and prepaid items	31,368	14,747
	474,919	547,189
OTHER ASSETS:		
Loan to an officer of the company (Note 2)	80,000	—
Interest in mining syndicate, at cost (Note 3)	36,669	8,659
5% refundable tax	—	1,944
	116,669	10,603
CAPITAL ASSETS, at cost: (Note 3)		
Petroleum and natural gas interests, less accumulated depletion of $1,108,533 ($951,162 in 1968)	3,189,544	1,829,495
Production and other equipment, less accumulated depreciation of $294,356 ($301,252 in 1968)	405,499	400,744
	3,595,043	2,230,239
INCORPORATION AND STOCK ISSUE COSTS	25,810	25,810
	$4,212,441	$2,813,841

Liabilities

	1969	1968
CURRENT LIABILITIES:		
Bank loan	$ 150,000	$ —
Accounts payable	418,061	103,710
Current portion of term bank loan	140,400	—
	708,461	103,710
DEFERRED GAS SALES	—	19,468
TERM BANK LOAN, secured by an assignment of production	680,758	—
Less — Estimated repayments within one year included in current liabilities	140,400	—
	540,358	—
SHAREHOLDERS' EQUITY:		
Share capital — (Note 4)		
Authorized —		
5,000,000 shares without nominal or par value issuable for an aggregate consideration not to exceed $5,000,000		
Issued —		
2,725,000 shares, of which 225,000 shares were issued for cash in 1969	2,892,551	2,562,551
Retained earnings, per statement attached	71,071	128,112
	2,963,622	2,690,663
	$4,212,441	$2,813,841

APPROVED BY THE BOARD:

Paul Porzelt, Director

Harry Dernick, Director

Auditors' Report

To the Shareholders of Bralorne Oil & Gas Limited:

We have examined the consolidated balance sheet of Bralorne Oil & Gas Limited and its subsidiary companies as at December 31, 1969 and the consolidated statements of income and retained earnings and source and disposition of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations and the source and disposition of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change in accounting for mining exploration costs as explained in Note 3 to the financial statements.

Calgary, Alberta
March 4, 1970

PRICE WATERHOUSE & CO.
Chartered Accountants.

Bralorne Oil & Gas Limited and subsidiary companies

Consolidated Statement of Income and Retained Earnings

For the Year Ended December 31, 1969

	1969	1968
Sales and other income:		
Oil and gas sales	$ 617,795	$ 540,990
Management fees	33,928	200
Interest income	31,735	36,055
	683,458	577,245
Costs and expenses:		
Production expenses	188,615	211,728
Administrative and general expenses	262,675	153,365
Interest expense	37,652	—
	488,942	365,093
	194,516	212,152
Provisions for: (Note 3)		
Depletion	196,482	188,386
Depreciation	29,836	41,741
Mining exploration costs (Note 3)	25,239	27,428
	251,557	257,555
Loss for the year (Note 5)	(57,041)	(45,403)
Retained earnings — beginning of year —		
As previously reported	119,453	173,515
Retroactive adjustment of mining exploration costs (Note 3)	8,659	—
As restated	128,112	173,515
Retained earnings — end of year	$ 71,071	$ 128,112

Bralorne Oil & Gas Limited and subsidiary companies

Consolidated Statement of Source and Application of Working Capital

For the Year Ended December 31, 1969

	1969	1968
Source of working capital:		
Loss for the year	$ 57,041	$ 45,403
Add — Provisions for depletion and depreciation which do not involve a current outlay of working capital	226,318	230,127
	169,277	184,724
Deferred gas sales	(19,468)	19,468
Receipt of 5% refundable tax	1,944	5,206
Proceeds on sale of capital assets	284,450	—
Costs recovered on equalization of investment in oil and gas unit	—	60,098
Issue of 225,000 shares	330,000	—
	766,203	269,496
Disposition of working capital:		
Acquisition of petroleum and natural gas interests	1,530,504	63,834
Less — Production bank loan assumed	718,957	—
	811,547	63,834
Oil and gas exploration and development	232,939	267,821
Purchase of production and other equipment	112,129	37,256
Mining syndicate exploration costs, less amounts charged to current income	28,010	8,659
Loan to an officer of the company	80,000	—
Reduction of term bank loan	178,599	—
	1,443,224	377,570
Decrease in working capital	(677,021)	(108,074)
Working capital, beginning of year	443,479	551,553
Working capital, end of year	$ (233,542)	$ 443,479

Bralorne Oil & Gas Limited and subsidiary companies

Notes to Financial Statements

December 31, 1969

1. BASIS OF CONSOLIDATION:

The consolidated financial statements include the accounts of the Company's two subsidiaries, Bralorne Petroleums Ltd. and Carleton Oil & Gas Development Co. Ltd., which are wholly owned. Carleton was acquired as of June 30, 1969 and its results of operations have been consolidated from that date.

The excess of the cost of shares of the subsidiaries over the book value of their net assets at dates of acquisition have been applied to petroleum and natural gas interests and depletion is provided thereon.

2. LOAN TO AN OFFICER OF THE COMPANY:

The loan was made to an officer director for his purchase of 100,000 shares of the Company. It is secured only by the related share certificates without other recourse to the debtor. The certificates are to be released to the debtor prorata to the loan repayments in ten annual instalments.

3. ACCOUNTING PRACTICES:

The companies follow the full cost method of accounting whereby all costs relating to the exploration for and development of oil and gas reserves are capitalized, whether productive or unproductive, and proceeds on disposal of properties are ordinarily deducted from costs without recognition of profit or loss. Depletion of oil and gas properties is computed on the total of all such costs by the unit of production method based on overall estimates of proven reserves of oil and gas. Depreciation of production equipment is also computed by the unit of production method based on overall reserves. In 1969 the Company adopted the practice, with retroactive effect, of deferring mining syndicate exploration costs where properties continue under examination; such costs will be amortized against production from such properties or written off upon cessation of work thereon. In 1968 such costs were charged against income as incurred. This change had the effect of reducing the loss for 1969 by $28,010. For comparison, the 1968 accounts have been restated by $8,659 in respect of costs now deferred.

4. SHARE CAPITAL:

On October 31, 1969 the Company concluded an exploration agreement with Chemcell Resources Limited whereby that company may invest up to $10,400,000 to the end of 1974 in oil and gas properties with Bralorne acting as manager of the funds and earning fees and working interests as well as participating in the programs on its own behalf.

Pursuant to the agreement, Chemcell Resources has purchased 125,000 shares of the Company's capital at $2 per share and has been granted an option to purchase additional shares at the same price. The option is exercisable at the minimum rate of 125,000 shares per quarter provided that, on a cumulative basis, its investment in the exploration program has equalled twice the aggregate issue price of the shares which will then have been issued under the agreement. When its exploration expenditures under the program equal $10,400,000 Chemcell Resources may purchase sufficient additional shares which would provide it with an aggregate holding of 50 percent plus 1 share of the issued, outstanding and reserved capital of the Company. The agreement also imposes certain restrictions on Bralorne and its subsidiaries, which may be waived.

The Company intends to apply for an increase in its authorized share capital of at least 5,000,000 additional shares without nominal or par value and to reserve 2,475,000 shares thereof to satisfy the exercise in full of this option.

100,000 shares of the Company have been reserved for incentive options which may be granted from time to time to officers and employees. During the year options on 45,000 shares were granted at a price of $1.00 per share and on a further 5,000 shares at a price of $1.60 per share. The options are for a term of five years and become exercisable cumula-

tively as to one-fifth of the shares under option each year. At December 31, 1969 none of the options had been exercised.

5. INCOME TAXES:

For income tax purposes the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which may exceed the related depletion and depreciation provisions reflected in their accounts; for 1968 and 1969 the companies do not intend to claim capital cost allowances in excess of recorded depreciation. At December 31, 1969 unclaimed drilling, exploration and lease acquisition costs of $745,000 and undepreciated capital costs of $215,000 remain to be carried forward and applied against future taxable income.

The Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants recommends income tax allocation for all differences in the timing of deductions for tax and accounting purposes. However, with respect to drilling, exploration and lease acquisition costs, the recommendation is questioned by the petroleum industry and this treatment has therefore not been applied to such differences in the timing of deductions for tax and accounting purposes. This view conforms with general practice in the oil and gas industry and is accepted by accounting authorities outside Canada.

If the tax allocation basis had been followed for all timing differences between taxable income and reported losses the income statement would have reflected a charge for deferred income taxes in 1969 of $ 22,000 and a credit for deferred income taxes in 1968 of a minor amount. The accumulated income tax reductions to December 31, 1969 approximate $875,000 after including the accumulated tax reductions of subsidiaries at dates of acquisition amounting to $769,000.

6. STATUTORY INFORMATION:

The aggregate direct remuneration paid by the Company and its subsidiaries to all directors and senior officers of the Company was $82,130 for the year ended December 31, 1969.

7. SUBSEQUENT EVENT:

By an agreement dated January 23, 1970 the Company agreed to purchase all of the shares of Junior Oils Ltd. in consideration for the issue of 25,000 shares of the Company and the payment of $300,000.

Bralorne Oil & Gas Limited
Annual Report 1969.

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